effect of this policy is seen in the enormous mass of Treasury notes with which the country has been flooded. Their total is now nearly 180 millions or perhaps 100 millions more than the gold which they were originally designed to replace.

It is also to be seen in the great increase in banking deposits which has been a feature of our financial history since the war began. Some people regard this feature as a phenomenal proof of the growth of our wealth during the war. I am afraid there is little foundation for this pleasant assumption, for these new deposits have been called into being by the banks subscribing to Government securities, whether War Loan, Treasury Bills, Exchequer Bonds or Ways and Means advances or lending their customers the wherewithal to do so. By this process the balance-sheets of the banks are swollen on both sides, by the Government securities and advances to customers among the assets, against which the banks create new deposits, so giving the community as a whole the right to draw more cheques.

Every time the bank makes an advance it gives the borrower a credit in its books, that is to say, the right to draw cheques to that amount; the borrower draws on the credit and hands it to any one to whom he owes money; but as long as the advance is outstanding there will be a deposit out against it in the books of some bank or another.

It is an easy way for the Government

to finance the war by getting the banks to manufacture money for it. Nobody feels any poorer for the process, in fact, those who have new money in their pockets or